



APPROVED MINUTES
APPROVED 01-30-12

CITY OF SCOTTSDALE
AUDIT COMMITTEE

MONDAY, DECEMBER 12, 2011

CITY HALL
KIVA CONFERENCE ROOM
3939 NORTH DRINKWATER BOULEVARD
SCOTTSDALE, AZ 85251

REGULAR MEETING

PRESENT:

Chair Suzanne Klapp
Councilman Robert Littlefield
Vice Mayor Linda Milhaven

STAFF:

Jennifer Pollock, City Attorney
Ron McCullagh, City Council Member
Bill Murphy, Community Services
Michael Clack, Community & Economic Development
Paul Katsenes, Community & Economic Development
Rob Millar, Community & Economic Development
Connie Padian, Community & Economic Development
Dan Vandenharn, Community & Economic Development
Rose Wright, Community & Economic Development
David Smith, Finance & Accounting
Gina Kirkland, Finance & Accounting
Joyce Gilbride, City Auditor's Office
Lisa Gurtler, City Auditor's Office
Joanna Munar, City Auditor's Office
Sharron Walker, City Auditor's Office

GUESTS:

Bill Banchs
Beth Duckett
Bob Frost
Mike Miller
Jeff Nichols
Diana Smith
Valerie Vadala Homer
John Washington

CALL TO ORDER

Chair Klapp called the meeting to order at 4:31 p.m.

1. Approval of Minutes, Regular Meeting, November 21, 2011

VICE MAYOR MILHAVEN MOVED TO APPROVE THE MINUTES OF THE NOVEMBER 21, 2011 REGULAR MEETING. COUNCILMAN LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF THREE (3) TO ZERO (0).

2. Discussion and possible direction to staff Audit Report No. 1204, Cultural Council Contract Compliance

Ms. Lisa Gurtler reviewed the audit report. The auditors found that the Scottsdale Cultural Council (SCC) generally complied with the agreement terms. However, the following contractual requirements can be strengthened:

- 1) Earmarking a greater portion of the management service fees to ensure City funds are directed towards programming services.
- 2) Requiring more informative performance measures.
- 3) Improving alignment with the SCC's open meeting policy to the City's.

Additionally the auditors determined that some City-provided financial information is incomplete or inaccurate. For example, the balance in the Arts in Public Places Fund is overstated due to some expenses not being specifically tracked. Also, previous City management used the Community Arts Trust Fund to pay \$300,000 for the 2010 financial participation agreement, even though this was not specified in the accompanying Council report. Finally the process used to coordinate City payment of certain SCC art related invoices is inefficient.

Ms. Gurtler noted that SCC management was in attendance. Speaking as contract administrator, Mr. Rob Millar thanked the auditors for their work over the last few months. Management believes that the Cultural Council is in compliance. What was found in a number of the instances cited shows there are opportunities for greater communication and efficiencies. Staff does not see any deficiencies directly related to contract compliance.

Chair Klapp asked whether staff plans to meet with the Cultural Council to review the recommendations. Mr. Millar said staff from his office and the City Attorney's Office will be working with the Cultural Council management and Board of Trustees over the next three months. They plan to report back to the City Auditor once they have thoroughly evaluated the audit findings.

Councilman Littlefield asked about the open meeting issue. Mr. Millar said he reviews the agenda for each meeting. If he has a question about items on the executive session agenda, he speaks to the CEO of the Cultural Council. Questions are resolved by rewording the agenda item to make it clear that it belongs in executive session, or by moving the item onto the regular agenda. He pointed out that the SCC has its own open meeting guidelines. Since he was assigned as contract administrator in April there has

never been an item on the executive session agenda that he believed did not belong there.

Councilman Littlefield asked what would be done about the seven instances the auditors identified. Mr. Millar said in many of those instances maybe the agenda item was not clearly worded. He reiterated that all the parties will be looking to improve the process.

Vice Mayor Milhaven congratulated the Cultural Council and staff for such a clean audit. The issues under discussion are really about perhaps doing things differently and do not relate to contract compliance. She asked whether the City has any other contracts that require the vendors to hold open meetings. Mr. Millar said he was not aware of any such contracts. Vice Mayor Milhaven said the City is holding the Cultural Council to a higher standard than other organizations.

Mr. Millar said the management services agreement states that the Cultural Council will have an open meeting guideline policy. The auditor's finding is that there were instances where the agenda for executive session was not clear. To address that specifically, staff is willing to work with the SCC and the City Attorney's Office to determine how they can better advise them. This is an offer to assist the Cultural Council.

Vice Mayor Milhaven asked whether there would be any risk in allowing the SCC to review their policy and report back to staff. Mr. Millar said there would not. The management services agreement provides for that, they just need to provide it to the City 15 days before implementation. Vice Mayor Milhaven said this would be her preference. The SCC has unique needs for privacy.

Councilman Littlefield recalled that this item was added by City Council the last time the contract was renewed, after the Arizona Republic had received a court ruling that the Cultural Council is not a public body. Vice Mayor Milhaven noted that the original contract required the Cultural Council to abide by the open meeting law. The revised contract now states that this is to be to the greatest extent possible, given the unique nature of the Scottsdale Cultural Council. Councilman Littlefield said any entity receiving so much public money should be transparent and accountable. Vice Mayor Milhaven said the question is how to get to that point. Her suggestion is that it is not the City's business to manage the Cultural Council's business, but to make sure the Council conducts its business in a way agreeable to the City, which is a question of process. Councilman Littlefield stated since City Council initiated that requirement, he does not think staff has the authority to change this on their own without passing it by the City Council. Chair Klapp noted staff can report back to the Audit Committee for the audit follow up. The suggestion is to let the Cultural Council discuss this with the contract administrator and come up with a plan or policy that works with their needs for open meetings.

Chair Klapp said she feels the same way about the suggestion about financial reporting. The Cultural Council and the contract administrator should discuss what materials should be presented to City Council regarding their performance and budgeting.

In response to a query by Councilman Littlefield, City Auditor Ms. Sharron Walker confirmed that her office will follow up on this report as usual. Councilman Littlefield stated that in his opinion, City staff does not have the discretion to change the requirements of the contract that the (City) Council put in there.

Vice Mayor Milhaven saw the discussion about financial information as a broader conversation around performance measures. The Cultural Council's annual report already provides a number of performance measures. In her opinion it would be worthwhile to discuss what other measures might be included. She asked whether the City has other contracts where vendors have financial hurdles for their own internal financial statements.

Ms. Walker said the Scottsdale Convention and Visitors Bureau provides a lot of performance measures. The auditors looked for metrics to be able to compare the SCC with other arts and cultural organizations. The Cultural Council's annual report contains a lot of information, but the Council is not representing this as measures of their performance. There is an opportunity for the SCC to identify their own performance metrics and goals in the annual report rather than leaving it to City staff or Council members to do that ad hoc.

Vice Mayor Milhaven said she wants to narrow this conversation down to financial metrics. To determine whether Scottsdale is getting good value for the money it gives to the Cultural Council, she believes in managing to outcomes—how many patrons, how many events. While she welcomes the conversation around performance measures, she would not be supportive of putting financial measures in. Also, she disagrees with the recommendation to look at financial measures as part of the contract compliance because the City does not hold any other vendor to that standard.

Councilman Littlefield stated that this is a unique vendor. The SCC has a sole source non-compete contract. The only similar vendors were Rural Metro in the past and the SCVB. It is appropriate to hold them to a higher standard than other contractors in light of the fact that this contract is not competitively bid.

Vice Mayor Milhaven said she is in favor of performance measurement but Council should evaluate the contract by the outcomes—how many events, how many people. Councilman Littlefield disagreed, stating the City has to hold the SCC to a special standard because they get a special deal.

Chair Klapp asked whether the SCVB has to provide performance measures. Ms. Walker said that they provide them but she was not certain that this is a contract requirement as she was not here at the time the SCVB was audited. Ms. Joyce Gilbride of the City Auditor's Office explained that the contract only contains a couple of required measures, however, the SCVB does provide quite a bit of information in their annual report. Ms. Walker commented that for this audit, the auditors looked at measures used by similar organizations.

Chair Klapp said she could understand if the ratios reported were deficient, but since the SCC's program expenses are within the targets mentioned, there is less need to require performance measures. Ms. Walker noted that in the most recent year the results had improved. Chair Klapp reiterated that there were no deficiencies found so she does not see a need to be providing any measurements at this point. Councilman Littlefield stated we will just have to disagree and fight that out when the contract comes up for renewal.

Chair Klapp said she sees this like many other audit reports they receive. The Cultural Council has undertaken to work with the contract administrator on possible reporting

improvements and report back to the Committee, which is what is usually required after an audit. This process is sufficient for this audit in her opinion.

No one from the Scottsdale Cultural Council wished to add any comments.

3. Discussion and possible direction to staff regarding Audit Report No. 1211, Development/Planning Processes and Fees

Ms. Gilbride reviewed the audit report which addressed the Mayor's request to review the City's current permitting system to provide a starting point for City Council to evaluate the use, need, cost, and benefits to the City and its residents. The audit concluded that Scottsdale has required plan reviews and permits to support the City's building code purpose of ensuring that minimum standards of construction are met. As part of the audit work they also conducted a survey of recent customers regarding their experience with Scottsdale's development process. The majority of responses to the survey indicated they had a positive view of their experience. The following recommendations for improvement were made:

- 1) A cost analysis should be performed each year including all components that comprise the total cost of planning and development services.
- 2) Alternative rates of recovery should be developed and provided to City Council when requesting annual adjustments to user fees.
- 3) Planning and Development should periodically analyze the relationship between the various user fees and the related service activities. This process would help ensure fees are appropriate to the level of effort required for the particular service.
- 4) The narrative report provided to City Council for the annual adoption of Planning and Development rates and fees should accurately describe the changes reflected in the proposed fee schedules.
- 5) Planning and Development should consider requesting assistance from the City's Communication Group to organize and simplify information available on the City's website. Fees schedules should be revised to minimize duplication and provide simplified information to the public.

Ms. Gilbride noted that Ms. Connie Padian and Mr. Michael Clack were in attendance. Ms. Padian told Chair Klapp that staff is in agreement with the recommendations.

Mr. Clack made a brief presentation of the department's workload in FY 2010/2011. He noted that 99.9% of all plan reviews were on time. The vast majority of the late reports were completed by the end of the next working day. The department has been accepting digital submission of plans for the past seven years; Scottsdale was the first city in the Valley to do so. Online payment is now accepted.

The Department has a rapid response team that works with Economic Vitality to assist businesses that are looking to locate in Scottsdale. The accelerated pre-application process means that applicants can have a meeting scheduled within two days. The accelerated staff approval process helps streamline the process.

For the future, staff is considering having building inspectors conduct some plan reviews. Mr. Clack noted that most of the plans examiners started their careers as building

inspectors. They are considering doing permitting right at the job site for small projects. Staff is also researching self-certification for certain projects.

Mr. Clack reviewed some of the Department's notable successes. They performed a plan review for an expansion to the Yelp facility over the counter and were prepared to issue the permit that day. Staff did a series of preliminary plan reviews with Fender Guitar. The building permit was issued within nine days of their formal application. Barney's is to date the largest digital submittal the Department has reviewed.

Councilman Littlefield asked him for an example of a permit not requiring a plan review. Mr. Clack replied this would be a minimum building permit, like rewiring a residence.

Chair Klapp told Ms. Padian the recommendation to make the web page more user-friendly is worthwhile. Ms. Padian said staff is already modifying the website. They are looking at simplifying the fee schedules.

Commenting that the survey of users was interesting, Vice Mayor Milhaven asked Ms. Padian what the Department's goal is in terms of customer satisfaction. Chair Klapp asked if follow-up is done when a customer is very unhappy to determine what the problem really is.

Ms. Padian said a survey is sent to everyone who obtains a certificate of occupancy. Management always responds to any survey that gives them less than excellent

Councilman Littlefield said the complaint he hears most is that people do not know which projects require a building permit. He surmised that the majority of residents do not realize that one is needed to replace a water heater. Ms. Padian said some contractors charge homeowners a hefty fee for obtaining the permit, although the homeowner can in fact go online for self-service very easily. Chair Klapp suggested a pop-up box on the website with a reminder in large font that would attract attention to this.

4. Discussion and possible direction to staff regarding status of FY 2011/12 Audit Plan

Ms. Walker reviewed the current status of the audit plan. Everything is on schedule.

5. Discussion and Possible Direction to Staff Regarding Agenda Items for Next Audit Committee Meeting

Ms. Walker reviewed the draft agenda for the January meeting. Staff plans to discuss the audit follow-ups and she will have a first draft of the sunset review process for boards and commissions. Once the Committee has reviewed it, she will bring a final draft to them in February.

She noted that the audit of the Palomino Library IGA may be completed ahead of schedule.

Ms. Walker noted a tentative agenda item for an update on the Auditor's budget.

Chair Klapp noted that she may be away on January 23. It was the consensus of the Committee to schedule the next meeting for Monday, January 30, 2012 at 4:00 p.m.

Public Comment

No members of the public wished to address the Committee.

Adjournment

The meeting adjourned at approximately 5:22 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz.